

Message Text

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ACTION EUR-12

INFO OCT-01 AF-08 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 PA-02 PRS-01 AGR-10 /127 W

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FM AMEMBASSY BERN

TO SECSTATE WASHDC 2951

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

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AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 3367

PASS TREASURY AND FRB

1. SUMMARY: DOLLAR AND MAJOR EUROPEAN CURRENCIES STRENGTHENED AGAINST SWISS FRANC. GOLD PRICE FELL SHARPLY. BANKING CIRCLES SAW US POLICY TO DEMONETIZE GOLD INFLUENCING EVENTS; EXPERTS BELIEVED GOLD WOULD FALL BELOW 100 UNLESS CENTRAL BANKS INTERVENED TO SUPPORT PRICE AND PREDICTED IMF WOULD SET FLOOR PRICE NEXT AUCTION. SWISS NATIONAL BANK EASED COMMERCIAL BANK RESERVE REQUIREMENT TO 37.5 PERCENT ON FOREIGN OBLIGATIONS. FEDERAL COUNCILOR BRUGGER VIEWED SWISS ECONOMY STILL IN TOUGH OF CYCLE; SAID NEW INVESTMENTS TOO WEAK FOR OPTIMISM RECOVERY FULLY UNDERWAY. NEW CAR SALES UP; RETAIL SALES SHOWED SLIGHT IMPROVEMENT. MORE FIRMS RETURN TO FULL-TIME EMPLOYMENT. ITALY SEEKING

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PROTECT STATUS ITALIAN WORKERS IN SWITZERLAND DURING

RESTRUCTURING SWISS ECONOMY CAUSED BY RECESSION. END SUMMARY

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: FOREIGN EXCHANGE MARKET CALM. MAJOR EUROPEAN CURRENCIES STRENGTHENED AGAINST SWISS FRANC. DOLLAR OPENED SF 2.48 MONDAY, CLOSED SF 2.51 FRIDAY. BANKS REPORTED MARKET INFLUENCED BY LARGE CAPITAL EXPORT CONVERSIONS AT SWISS NATIONAL BANK (SNB), REDUCED FRG JUNE TRADE SURPLUS, ANNOUNCED UK PUBLIC SPENDING CUTS AND REPORTED IMPROVED ITALIAN RESERVES. GOLD MARKET HECTIC; PRICE FELL SHARPLY AFTER ANNOUNCEMENT THIRD IMF AUCTION. OPENED 118 MONDAY; FELL TO 106 TUESDAY; CLOSED 110 FRIDAY IN UPWARD TREND. BANK SOURCES AND PRESS REPORTED PRICE FALL RESULT US POLICY DEMONETIZE GOLD AND FRG GOLD SALES TO CONSTRAIN TIALY ADOPT CORRECTIVE ECONOMIC MEASURES TO REPAY FRG LOAN LINKED TO GOLD. RATES FOLLOW:

	7/19 (OPEN)	7/23 (CLOSE)
SPOT DOLLAR	2.4815	2.5110
FORWARD DISCOUNTS (PCT.P.A.)		
ONE MONTH	- 4.79	- 3.92
2 MONTHS	- 4.72	- 4.16
3 MONTHS	- 4.71	- 4.33
6 MONTHS	- 4.40	- 4.22
12 MONTHS	- 4.15	- 4.10
SF/DM	96.31	97.43
GOLD	118.70	110.75

3. GOLD PRICE: SWISS BANKS ANALYSIS GOLD PRICE ASSERTED THAT US, FRG AND SWISS SUCCESS HOLDING DOWN INFLATION, TOUGHER US AND FRG MONETARY POLICIES AND STABLE DOLLAR CAUSED INVESTORS LEAVE GOLD. COMING AFTER LARGE PERIODIC GOLD SALES BY SOVIET UNION, SOUTH AFRICA AND TWO IMF AUCTIONS, ANNOUNCEMENT THIRD AUCTION CAUSED MARKET PANIC. MOST EXPERTS PREDICTED IMF WOULD BE OBLIGED SET FLOOR PRICE FOR THIRD ACUTION TO MAINTAIN PRICE LEVEL FOR BENEFIT LDC'S. OTHERS SAW PRICE SOON FALLING BELOW 100 UNLESS EUROPEAN CENTRAL BANKS INTERVENED TO SUPPORT PRICE WHICH SWISS BELIEVED WOULD HAPPEN. OBSERVERS SAW US POLICY BEHIND DEVELOPMENTS AND UNCLASSIFIED

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ADVISED MARKET WATCHERS FOLLOW DOLLAR ATE, US ECONOMY PERFORMANCE AND WORLD INFLATION AS KEY FACTORS DETERMINING GOLD PRICE.

4. MONEY AND CAPITAL MARKETS: MARKETS CALM. CALL MONEY RATE REMAINED 0.5 PERCENT. SAK INDEX (1959 EQUALS 100) RETURNED 212.3 JULY 23 AFTER BRIEF DECLINE. AVERAGE YIELD CONFEDERATION BONDS FELL SLIGHTLY TO 5.09. SNB ANNOUNCED

50 PERCENT REDUCTION JUNE 26 ORDER WHICH RAISED REQUIRED
COMMERCIAL BANK RESERVES ON FOREIGN OBLIGATIONS FROM
10 TO 65 PERCENT; RESERVE REQUIREMENT NOW 37.5 PERCENT.
CAPITAL EXPORT CONVERSIONS AT SNB SINCE JUNE EXCEEDED EXCHANGE
MARKET INTERVENTIONS BY SF 500 MILLION, HALF THE
AMOUNT SNB SOUGHT STERILIZE THROUGH INCREASED BANK RESERVES.
REPORT OF CAPITAL MARKET ACTIVITY FIRST HALF 1976 SHOWS
BORROWINGS AMOUNTED SF 4.3 BILLION, 51.8 PERCENT BY
SWISS PUBLIC ENTITIES (RECORD 38.1 PERCENT OF BORROWINGS
FOR CONFEDERATION, 8.5 PERCENT BY CANTONS AND 5.2 PERCENT
FOR COMMUNES). THREE SOCIAL SECURITY FUNDS REPORTED
INVESTMENTS SF 8.512 MILLION END JUNE 1976, UP 17 PERCENT
FROM END DEC 1975; AVERAGE YIELD 5.11 PERCENT END
JUNE COMPARED 5.6 PERCENT END 1975.

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PASS TREASURY AND FRB

ECONOMIC

5. RECOVERY: FEDERAL COUNCILOR BRUGGER COMMENTING ON ECONOMIC RECOVERY SAID SWITZERLAND STILL IN BUSINESS CYCLE TROUGH; OUTLOOK REMAINS UNSETTLED AND MANY PROBLEMS AWAIT SOLUTIONS; CONSTRUCTION INDUSTRY HAS NOT YET BEGUN RECOVERY: INVESTMENT UNUSUALLY WEAK; MOST EXPORT BRANCHES REPORT DEPRESSED RETURNS, SOME SELLING BELOW COST TO MAINTAIN MARKETS. BRUGGER SAW DIFFICULTY FINANCE ESSENTIAL NEW INVESTMENTS IN RESEARCH, DEVELOPMENT AND STRUCTURAL CHANGES FOR FUTURE; THEREFORE TOO OPTIMISTIC SAY ECONOMIC DOWNTURN FINALLY BOTTOMED OUT. BRUGGER UNCLASSIFIED

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SAID DRASTIC SNB MEASURES (INCREASED COMMERCIAL BANK RESERVES ON FOREIGN OBLIGATIONS) INDICATED SERIOUS INTENTION MAINTAIN 6 PERCENT 6 PERCENT ANNUAL RATE MONEY SUPPLY EXPANDION; PRIME OBJECTIVE BOLSTER FOREIGN EXCHANGE MARKET WHICH TOO THIN. BRUGGER NOTED SUCCESS GOVT SUBSIDY PROGRAM TO STIMULATE ECONOMY, FROM NUMBER APPLICATIONS RECEIVED AND APPROVED. HE SAW CONTINUED PRICE CONTROL PROGRAM HAVING USEFUL PSYCHOLOGICAL IMPACT. BRUGGER STRESSED IMPORTANCE EXPORT PROMOTION TO NEW MARKETS LIKE MIDDLE EAST AND NOTED EFFORTS GOVT AND PRIVATE SECTOR HELP COUNCIL SMALL AND MEDIUM SIZE FIRMS NEW TO EXPORT.

6. RETAIL SALES: SLIGHT IMPROVEMENT SEEN; APRIL-MAY RETAIL SALES 0.5 PERCENT BELOW LAST YEAR'S WHILE JAN-FEB SALES WERE 6.5 PERCENT BELOW 1975. SWISS CREDIT BANK REPORTS SLOWED GROWTH IN SAVINGS INDICATES FIRING CONSUMER PURCHASES. RETAILERS HAVE BEEN CUTTING PRICES TO BOOST SALES.

7. CAR SALES: SWISS CAR DEALERS REPORTED NEW PASSENGER CAR SALES TOTALLED 109,590 UNITS FIRST HALF 1976, UP 6.8 PERCENT COMPARED SAME PERIOD 1975. JUNE 1976 SALES INCREASED 7.9 PERCENT FROM LAST YEAR.

8. UNEMPLOYMENT: NUMBER FIRMS OPERATING SHORT HOURS END JUNE 1,591, DOWN 11 PERCENT FROM MAY; 51,624 PART TIME WORKERS, 22 PERCENT FEWER THAN MAY.

9. FOREIGN LABOR: ITALIAN-SWISS COMMISSION HAS AGREED SWISS UNEMPLOYMENT INSURANCE APPLIES MOST CATEGORIES ITALIAN WORKERS IN SWITZERLAND; ITALIAN SEASONAL WORKERS DISQUALIFIED IF WORKED LESS THAN 150 DAYS AND NOT EVERY YEAR; ITALIANS WANTED BORDER WORKERS COVERED BUT SWISS ARGUED THESE UNEMPLOYED NO LONGER IN LABOR FORCE.

SWISS ALSO RESISTED ITALIAN REQUEST MAKE BENEFITS
PAYABLE ABORAD. ITALY SEEKING PROTECT STATUS ITALIAN
WORKERS HERE IN VIEW SWISS POLICY REDUCE NUMBER FOREIGN
WORKERS IN ECONOMIC RESTRUCTURING CAUSED BY RECESSION;
ITALIAN WORKERS NUMBERED 123,537 END APRIL, 38 PERCENT
FOREIGN LABOR.

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